

Town of Bedford Finance Committee

Town Hall, Selectmen's Meeting Room

August 13, 2015

Members in attendance: Rich Bowen, Steve Carluccio, Karen Dunn, Elizabeth McClung, Paul Mortenson, David Powell, Steve Steele, Ben Thomas.

Others in attendance: Victor Garofalo, *Director of Finance and Collector/Treasurer*; Michael McAllister, School Committee.

Upcoming FinCom meetings before Special Town Meeting (Nov. 2): September 17 & 24; October 8, 22 & 29.

School Update re: Modulares: School Committee Chair Michael McAllister presented new information regarding surprising increases in modular classroom costs and how this effects plans to deal with space constraints at Davis and Lane schools. Annual Town Meeting '15 approved approximately \$120,000 for a third modular at Davis but when the project was first posted, no bids came in. The School department "called around" to understand why that might be and also to see if there were any used modulares on the market.

"The answer they got is there are a lot of companies that aren't looking to do one modular," Mr. McAllister explained. "They're looking to do 3, 4, 5 modulares. Brookline has just recently put a modular on every school in their district.

"Another round of RFPs went out and the good news is there were two bids," he continued. "The bad news is the first bid was for \$434,306 for a single modular—which is more than double the price for half of the modulares from the previous year and certainly way over the money we had from Capital. The second bid was an offer for a custom built structure for \$158,000 but it didn't include the concrete slab, plumbing, mechanical systems, electrical work—it was a very basic vinyl-sided structure."

In response to these bids, the School Committee re-visited the process to determine if the bid had gone out too late or whether "something was wrong" with the RFP. Facilities Director Taissir Asani and Superintendent Jon Sills agreed, upon examination, that neither was the case.

Mr. McAllister said that, lacking the additional modular at Davis means that there will only be 9 kindergarten classrooms this year instead of the budgeted 10. "This is not without consequence. We are going to be over the target-size for kindergarten, first and second. Grade 2, in fact, is the largest class size we have.

"Parents have certainly found out," he added. "A letter went out from [the principal] last Thursday or Friday. In an effort to balance the reality of not being able to add a 10th class because of space, we came up with a solution that Principal Benoit thinks can work. We'll take that 10th teacher and turn it into an interventionist position. This is a Regular Ed position, not a Special Ed position. That role will be assigned to several classrooms. We've basically said to take a year and see how this works. The question is, can you minimize the negative impact of larger class sizes with that other person?"

Mr. McAllister did not have a full tally of the number of students assigned to each Davis classroom, although he reported that all will be over the 21-student cap. Grade 2 will be close to 24 students in each classroom.

Looking ahead at the likelihood of expansion projects at the elementary schools, Mr. McAllister said the Massachusetts School Building Authority (MSBA) process has changed since the last round of school building undertaken several years ago. “MSBA has informed us that we can’t move forward on any additions until they approve our statement of interest,” he explained. “That means, we can’t form a committee, we can’t conduct a feasibility study, we can’t hire a project manager, we can’t do anything. In fact, the MSBA is now so prescriptive that it actually has to approve who is on the building committee. They won’t probably approve this until December; they also say ‘delays are likely’ so we might not get this approved in the first year. But, even if it is approved in December, it pushes our plans back.”

Three questions Superintendent Sills has been discussing with the School Committee and with Town Manager Reed are: 1) should the modular phase be set aside in favor of moving ahead on permanent additions; 2) should the Schools abide by the MSBA timeline or move ahead unilaterally, foregoing a potential 40% State reimbursement; and 3) how does the six-year Capital approach impact this decision?

Mr. McAllister reminded the Committee that the proposed additions to Davis and Lane were projected at \$1.9M each. When the calculations were first made, the forecasts were for three years ahead, knowing that neither project would be initiated until that time period.

As he sees it, there are 4 options for moving forward: 1) seek to minimize the impact of larger classroom by the use of the interventionist— rather than add another modular—as will be tried this year— although Mr. McAllister acknowledged this may not be a long-term solution; 2) add a modular some time in the future; 3) do additions within the MSBA process; 4) move ahead on the additions without conforming to MSBA direction and forego reimbursement.

“It was an easy decision to say ‘no’ to buying one modular for \$400,000,” Mr. McAllister concluded. “The question is, what is the right move after that?”

Mr. Steele asked whether this turn of events means that it’s appropriate now to re-consider the Davis space reconfiguration plans that were shelved last year in favor of the attaching the two current modulares. Mr. McAllister replied there is an “unknown factor” at Davis. “We all know the number of students at Davis is going up but at the same time, that number is unknown year to year. Whereas, going into Lane, it’s pretty much easy to project.”

Mr. Steele commented that, based on school-age population projections and observable residential building and move-in trends, increases at Davis are likely to continue. He added he’d like to see solid Lane numbers confirmed before moving ahead on an addition there.

Mr. Garofalo said the Lane project as planned is for a four-classroom addition and that the \$1.9M price tag has been confirmed. “We are building it into the model to possibly go to Special Town Meeting [in November],” he said. “Davis is on the list for a future year but, if we wait for MSBA, we’re going to have

to spend the \$400,000 [for the one modular]. Is it really worth spending that for a 40% reimbursement?"

Mr. Powell asked what would happen if the Town decided to add 4 more modulars. Mr. Garofalo said that the addition would still need to be built. "That need doesn't go away," he emphasized.

Mr. Powell suggested that the price of adding multiple modulars, instead of only one, might end up being cheaper per unit. Mr. McAllister replied that the Schools looked into collaborating with other towns to increase their leverage by buying in bulk. "At the end of the day, you're still bringing it to the site and hooking it up. After buying the basic modular [for \$158,000], there's still about \$200,000 worth of work that probably needs to happen....I don't think that if one modular is \$432,000 that two modular is \$868,000 but I do think that it's still a lot higher than anyone should be spending on modulars."

Mr. Steele asked if the Schools believe the Davis population will hit 200 by opening day. Mr. McAllister said it is likely and that, historically, late August is a big move-in time when a lot of students show up on the radar for the first time. Mr. Steele said the tone of Principal Benoit's recent memo about Davis enrollment suggested the number might not climb too much higher than the current 180s.

Mr. Thomas said it seems as though every enrollment projection in recent years has been wrong. "Why should we believe any of them? My personal opinion is that they're going to continue to go up." In response to Mr. Thomas' urging to get into the MSBA pipeline as soon as possible, Mr. McAllister said that Bedford joined the queue for three school additions –Davis, Lane and JGMS—last November.

Mr. Thomas asked if the 10th kindergarten teacher (who will act as interventionist this year) will become a permanent employee. Mr. McAllister replied that the reassignment is an experiment that the School Committee will assess after the academic year has concluded.

About classroom enrollment targets, Mr. Thomas said, "Our targets are kind of made up numbers. How do they compare to other towns of our size?" Mr. McAllister, an elementary school principal in Belmont, said each town has its own philosophy and tolerance regarding class sizes. "It ranges. I would say [Bedford] is at lower end of it. In my experience, when a community gets an appetite for larger class sizes, it tends to be hard to slow down. I think it's a good thing that Bedford has held it at 21 (for kindergarten). Research on class sizes isn't great: it tends to talk about the difference between 15 and 16, not the difference between 24 and 25."

Mr. Thomas said his sense is the numbers could go up without disastrous result but if they did, "it would require a lot of handholding of parents." Mr. McAllister agreed, saying it's a balancing act to weigh the trade-offs between fiscal and parental sensitivities.

Mr. Bowen said parental fears could be justified if larger class sizes become a trend. Mr. McAllister said that it is common in Belmont to have middle school class sizes of 28 or 29 but "that's what that community has decided."

Mr. Thomas said his memory is that Davis was designed with the idea that a second floor could be added. Mr. Bowen added that Lane was also designed to absorb a lateral expansion of 4 more

classrooms.

Mr. Powell said the Schools should not be afraid to consider adding multiple modulars to bide time for the MSBA process to unfold. “It could be that you could get two modulars for \$600,000 and three for \$750,000. I think walking away from a potential of 40% reimbursement is hard to overcome. We need them at Lane, we probably need one at Davis. The thing about modulars is they’re flexible. You can move those things around, although it would cost you something. You can maybe also sell them in a few years. Let’s say we go get four more modulars and then we build our Lane School and then in three or four years, we have six modulars that we don’t need any more. We might be able to recover some money on that.”

Mr. McAllister said he would play that idea by his colleagues and the Superintendent. Mr. Garofalo said that it would be unlikely that the Town would borrow to buy modulars and would pay cash instead. “That would mean something else is going to give to pay for the modulars and then you’d end up borrowing for [the thing that got bumped].”

Mr. Powell suggested that, with three schools in the MSBA pipeline—and the potential to use modulars as a band aid for Davis and Lane—the next addition might make more sense at JGMS instead of at Davis.

Mr. Steele added that he believes Kids’ Club is looking at modulars as a solution to space constraints as well.

Mr. Powell asked what the benefits are to going ahead with the additions outside the MSBA process. Mr. McAllister replied that the benefit is an expedited timeline. Mr. Garofalo cautioned that the danger in waiting beyond the three year projection timeframe is that construction costs will be higher. Mr. McAllister said that the Town would have more control if it didn’t partner with the MSBA but that didn’t mean it would end up being cheaper.

Mr. McAllister said that the State has counselled Bedford to think creatively, suggesting the town could re-district as other towns are doing in order to wait out the MSBA timeline. “But other communities have more flexibility than we have there. Bedford only has one district,” he said.

Ms. McClung said that the MSBA reimbursement is only for specific parts of renovation or building construction. Additionally, the MSBA “is very specific about how big a classroom needs to be so there could be some savings and [moving ahead unilaterally] would be good to look into.”

Ms. McClung encouraged the Schools to consider innovative options such as using space at the high school, staggering hours, combining classrooms or assigning two teachers to overenrolled classrooms. “There are possible ways to be creative. I’m not ready to throw away the 40% reimbursement,” she said.

Ms. Dunn asked whether there is a better way to get more accurate enrollment projections. “Are we locked in using the company that’s been giving us the wrong numbers?”

Mr. McAllister said that Bedford—like most other Massachusetts towns—use to hire a company called NESDEC to provide demographics analysis. “About three years ago, Lexington decided to do their own

thing—because I think there was a lot of evidence to suggest that NESDEC wasn't very accurate. The model that they use is called the 'cohort survival rate.' It's been pretty reliable for a long time but never perfect. When Lexington went outside of that and used a different model, a lot of towns started to follow their lead. Bedford now uses a different company. The big thing here, though, is that it's fortunetelling. My take is that this new group is really thorough—they talk to realtors, they talk to builders, they looked at building permits. It's still an educated guess...One thing that's not clear is the exact number. One thing that is clear is the number is higher than it used to be. The question is, 'By how much and how much is it going to cost?'"

In response to Ms. Dunn's suggestion to revisit how the numbers are calculated, Mr. McAllister said part of the problem is that enrollment studies are a snapshot in time. They also take a lot of time and effort. "My sense is the most recent study [by the new company] seemed more thorough and used more data points than the traditional NESDEC model. We have to see, as the students are now showing up, how accurate the numbers are."

Mr. Carluccio said that Bedford has changed and is still changing with the addition of high-density housing, elders moving out, families moving in, more affluent people coming into town, a Hanscom number that can be "tricky" and the homeless population at the Bedford Plaza. "There's lots of different things. I think Bedford is a hard town to really pinpoint enrollment. When things are stable in a town, it's easy to project. When things are happening in a town like what's happening in Bedford, it's close to impossible."

Ms. Dunn concurred, saying it's a moving target with a lot of variables. Mr. McAllister said it is hard to be put into a position of reacting to a vastly different number from one you've planned for and paid experts to come up with.

Mr. Carluccio pointed out that it is not known what a modular will cost next year to cover the need at Lane when the current 2nd grade moves up to 3rd. "The next time we see Taissir, we can ask him about the modular market," he said.

Mr. Carluccio said the Capital money (about \$120,000) that would have been used to buy the modular this year will not be expended and can therefore be used for other projects that were not funded.

Mr. Garofalo clarified that a four classroom addition to Lane is already on the six-year Capital plan to begin construction in FY17 with completion by September FY18. Mr. Carluccio asked if four classrooms were a reaction to the current 2nd grade bubble or to a general concern about class sizes at Lane. Mr. McAllister said it was both. "We're not only getting more kids at the kindergarten level, we're also getting kids moving into 2nd and 3rd and 4th. It's impacting every grade."

Although the exact number of students entering kindergarten this fall is not yet known, the Schools have used census data and done outreach to residents through newspaper articles and mailings to get as close to accurate as possible. But, even with this level of detective work, there are people who fall through the cracks, hold their children back or send them to private schools.

Mr. Bowen said he'd like to hear more about the modular strategy, adding he's in disbelief that modulars can't be somehow procured. Mr. McAllister said that the price of modulars may well go down in the future. "I don't think it's going to be as high as \$434,000 but I also don't think it's going to be as low as \$197,000."

Mr. Bowen added he'd like to dig into the current regulations to see what will be covered by the MSBA because—thinking about needs funded in past renovations through State funding—there may be additional benefits to pursuing the MSBA option. "Your Capital plan has a lot of school building renovations included that have to be done. If we can get those done with 40% reimbursement, that needs to be part of the consideration."

Mr. Busa agreed with the Schools' decision to vote against the purchase of a modular for \$400,000. He added he approves of the fallback plan to try the interventionist. But, he said he would have a hard time going to Town Meeting and recommending not going through the MSBA process.

"I agree with Elizabeth. Instead of throwing money away, I think the Committee would want to look at other avenues until we can get a grip on how long it will take to get approval to form a building committee and get into the pipeline," Mr. Busa said.

Mr. McAllister said that Superintendent Sills has approached Recreation Director Hamilton about using Kids' Club space for classrooms during school hours when Kids' Club is not open.

Ms. McClung asked whether the \$1.9M construction cost took into account already-in-place systems like heating. Mr. Garofalo said that Mr. Alani used a per square foot calculation and more in depth questions could be asked of him directly when he comes to the first FinCom meeting in September.

Mr. Thomas said he would like a better projection process so that needs are known well in advance of need. "We're about to spend a phenomenal amount of money and it feels like we're doing it six months at a time. I'd really like to look ahead and say 'here's what we expect at Lane and Davis etc.' I'd like to see the whole plan."

Mr. Powell asked if this isn't what the 6-year Capital plan is for. Mr. Thomas said that although there is a lot of building in the Capital plan, it doesn't cover everything that comes up. Mr. Powell said that the current need at the elementary schools is not because those buildings are reaching the end of their useful lives but because of population increases that even paid experts can't accurately forecast. "Taissir can't look out 15 years and see that," Mr. Powell said.

Mr. Steele asked if the plan is to go to Special Town Meeting with an outside-of-MSBA request for building an addition to Davis. Mr. Garofalo said that was a suggestion but not a plan, per se. "But something needs to be done for September of 2017 for Lane School," Mr. Garofalo emphasized.

Mr. McAllister said that one ongoing discussion will be about looking at the budget differently: "What's the FTE (full-time equivalent)? What's the enrollment? What's the projection? It seems like it would be better for us to come in earlier than usual to start talking to you about this."

Mr. Thomas said he'd like to hear about plans and alternatives instead of more of the same that has led to 4% increases year after year. Mr. McAllister agreed that the initial presentation should put everything known on the table and work from there. He added it's possible the MSBA might give Bedford the green light, in which case there would be less need for alternative plans.

In conclusion, Mr. Steele said it is clear FinCom's consensus is to go the MSBA funding route. Mr. Thomas said the Schools should look into using other space if the costs of modulars is prohibitive and the MSBA makes Bedford wait. Mr. Steele added that SpEd currently takes up a lot of space that use might be re-evaluated. Mr. McAllister said that the Schools have looked at options like using Kids' Club space and putting Art and Music on carts instead of occupying full classrooms. "We have a year now to figure it out," he added.

Mr. Steele, like Mr. Thomas, recommended the Schools come in with different scenarios. Ms. McClung encouraged the Schools to rally parents to call the MSBA to apply pressure.

Financial Model 1.0: Starting with page 2—with plans to return to page 1— Mr. Garofalo delineated the changes that have occurred from the starting baseline.

Revenues

Sewer Revenue: This has decreased from \$5,148,413 to **\$5,050,104** due to the adjustment between estimated (before the rates were set) and actual (after the rates were set). While the sewer rates did go up, the MWRA sewer assessment went down (to 3.66%) from the expected 4%.

State Aid: Came in close to what was expected so the adjustment is slight: from (projected) \$6,174,488 to **\$6,156,208**.

CPA P & I: Originally \$705,006, now **\$673,939** due to delays on the Town Hall MEP project that has postponed the need to borrow.

Expenses

State Assessments: Decreased from the Cherry Sheets: was \$407,654, is now **\$378,791**.

Offsets: Increased from \$24,260 to **\$34,843** (library and school lunch.)

Snow Deficit: Currently highlighted in blue, this number has not yet changed but will go when State and FEMA funds are received as expected. Mr. Garofalo will check with the Dept. Of Revenue (DOR) to see how to handle the timing of the reimbursement. The total amount anticipated is about \$200,000.

Debt Service

Non-exempt debt service (sewer): decreased from \$ 2,393,322 to **\$2,195,743** because the project did not start when expected.

CPA: Decreased from \$705,006 to **\$673,939** (see above CPA P & I.)

Mr. Garofalo said he expects to do a bond sale this September and the payment on the principal is not due until a year afterward. Therefore, he has reduced the principal amount shown in the model.

Public Works

MWRA Assessment: Reduced from \$ 3,213,185 to **\$3,199,185** (See below.)

Water Purchase: Increased from \$1,665,022 to **\$1,884,722**. (See below.)

The above reflect adjustments made in water rates and irrigation water use. If these adjustments are correctly calculated, Mr. Garofalo will not need to ask FinCom again for a Reserve Fund transfer for a third year in a row to cover water costs.

Mr. Garofalo added that, through the ongoing auditing initiative, a couple of businesses were found to have defective meters. Those meters have been replaced and the Town has negotiated with the companies for retroactive payments. Audits are ongoing so more malfunctioning meters may be discovered. Residential meters will be assessed after the commercial review has been completed.

Mr. Garofalo emphasized that “there were no malicious acts” on the part of the businesses; the meters just stopped working. Mr. Garofalo added that, within the Capital plan, there is a project to replace all the water meters throughout town.

School Department

Based on what he has heard, Mr. Garofalo recommended that FinCom reduce the School budget by \$516,000 because Hanscom student funding for FY16 will be forthcoming. [Funding for FY15 is not expected, however.] The money is expected to go straight to the Schools so the tax levy contribution to the School budget can be reduced by the same amount and the Schools can use the State revenue as an offset. It is not known exactly when the funds will come in or whether it will be paid in monthly or semi-annual installments.

Mr. Bowen asked what would happen if the governor reneges on the funding to balance the State budget. He said that the Schools used to use the funds as offsets following actual receipt, rather than counting on projected revenue. “If it was \$50,000, you can find that somewhere. With \$516,000, it’s harder to come by. Last year, the governor just put an X through it and it was gone.”

Mr. Garofalo said the alternative would be to hold the money in the Reserve Fund until the funding was a sure thing, one way or the other. Mr. Bowen said a different option would be to revert to prior practice, keeping things as is with the FY16 budget but holding the eventual payment to apply to the School Budget next year, thus re-establishing the lag-year practice. “If the State does not come through, then we don’t have a half-million shortfall in mid-year,” he explained.

Mr. Busa said money to cover the lack of State compensation for Hanscom students didn’t go into the budget until the Town was under the assumption it wouldn’t get the legislated funding. “Now that we’re back to the assumption that we are going to receive it, we should reverse to where we were and put the

money aside. If we need to put it in the Reserve Fund, it can sit in the Reserve Fund.” Others signaled their agreement. Seeing consensus, Mr. Garofalo moved the **\$516,000** into the Reserve Fund.

Vocational Education has been increased from \$490,000 to **\$530,000** for the time being. Mr. Garofalo will adjust the number once the final Minuteman Tech student count is known.

General Financial Articles

Now that the discussion has taken place, Mr. Garofalo said he would adjust the Main Capital Article amount downward by the amount approved at Annual Town Meeting for the modulars. He will confirm the exact amount. [Approx. \$121,000.]

Mr. Steele asked if—given this and other changes—CapEx will make proposals for alternative uses of Capital funds at Special Town Meeting. Mr. Garofalo said this would be a topic for discussion first among department heads and then with CapEx. “We want to make sure that the four projects that were pulled off the list before can still happen. There’s \$220,000 [available].”

Local Receipts ReCap/Detail

The Mitre PILOT has been adjusted to the actual amount billed=**\$1,583,575**.

Water Revenue has been adjusted upward to reflect expected revenue based on the increased = **\$3,563,617**.

Additional Non-recurring State Aid/Homeless transportation funds: \$79,000 was received for FY14. Bedford was supposed to receive \$125,000.

Returning to page 1: All Revenues

Because of the decision to put the received FY14 Hanscom student funding into the Reserve Fund, the Budget Surplus total as shown in Model 1.0 will be decreased by \$516,000 to **\$139,249**.

Unused Levy to leave for FY was also changed so that it matched the Mitre PILOT number= **\$1,583,575**.

Additional adjustments are expected in two other areas: new growth, snow deficit.

With the anticipation of this additional revenue—and an impending bond sale—it was seen as prudent to add funds to the Stabilization Fund. Therefore, with the consensus of the Committee, \$260,000 was moved into Stabilization. With regard to the Financial Policies to be discussed later in the meeting, the target for the Stabilization fund is between 2-6% of operating costs. With the addition of the \$260,000, the fund is now over 3% of operating.

Mr. Thomas asked to schedule time for departments to present what their plans are for their special funds/accounts. Mr. Steele said the Committee can map out a plan for this during its first meeting in September. Mr. Garofalo will send out the balances of those accounts for FinCom review. Mr. Busa said the first question should be, “Why do we have funds?”

Financial Policies: The majority of this discussion centered on what the debt ratio should be. Some members favored stating a ratio range of 7-10% with 10% representing the upper limit of acceptability. Several concerns included adequate spending on asset maintenance and infrastructure; correcting the impression that 10% itself is not seen as “a goal” for debt exposure; crafting a policy that wasn’t “spinable” by those who might wish to move the line; whether revisions to the policy language are being seen as a tool to drive down spending.

Mr. Mortenson asked if setting the debt ratio was intended to make the rating agencies happy. Mr. Thomas said it was but discussion then continued about whether the policies are an internal document for FinCom’s use or a guideline to be endorsed by the Selectmen as well. Mr. Thomas said he wants the policies to reflect current best practices. Mr. Busa said that, originally, the policies were seen as FinCom’s guideline but then the Selectmen and School Committee were asked to endorse it.

Asked what the debt ratio is currently, Mr. Garofalo said it stands at 8.77% but it was over 10% for a couple of years when debt was acquired for building projects.

Ms. Dunn suggested considering two ratios: one to ensure asset maintenance and the other to keep debt to a reasonable level. What the rating agencies want to see is a third factor for consideration.

Mr. Busa said the lack of investment in assets is what lead to the massive need for re-building and renovations that cause an increase to the Town’s debt profile, up to and over 10%. In order to get a handle on what upcoming asset investments are likely, he’d like to see an analysis— such as Mr. Thomas has been urging— that will assess building and infrastructure status/needs. With this in mind, he favors including a second infrastructure investment number.

Mr. Bowen said that something should be included about Capital spending levels. “We should make sure we’re not creating deferred maintenance.”

Mr. Steele took a straw poll about how the debt figure should be expressed:

Members opting for a range: Mr. Busa, Ms. Dunn, Ms. McClung (with language about 10% not being a goal); Mr. Powell (although he objects to the idea that the average should be driven down below 10%), Mr. Thomas.

Members who opt to continue with the current wording: Mr. Bowen, Mr. Mortenson (but if the policy changes, the Selectmen should be involved in the decision.)

Note: Mr. Carluccio left the meeting before this poll was conducted.

Mr. Steele will craft a draft of the new wording for review at the next meeting.

With regard to wording for the Capital policy, Mr. Mortenson passed around a draft for review and discussion at the next meeting.

Minutes: Mr. Mortenson moved to approve the minutes of June 25 as corrected. Mr. Powell seconded. The motion passed, 5-0-3.

Adjournment: Mr. Thomas moved to adjourn. Mr. Powell seconded. The motion passed unanimously, 8-0-0.

Respectfully submitted,
Kim Siebert, FinCom Recording Secretary